

AR54

# ALBERTA NATURAL GAS COMPANY LTD

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1979 ANNUAL REPORT



# ALBERTA NATURAL GAS COMPANY LTD

240 - 4th Avenue S.W.,  
Calgary, Alberta T2P 0H5

## CORPORATE INFORMATION

### DIRECTORS

**John F. Bonner,**  
San Francisco, California  
*Executive Consultant. Director,  
former President and Chief  
Executive Officer, Pacific Gas and  
Electric Company*

**Harry Booth,**  
Calgary, Alberta  
*President and Chief Executive  
Officer, Alberta and Southern Gas  
Co. Ltd.*

**D. R. Fenton,**  
Calgary, Alberta  
*Senior Vice-President, Alberta and  
Southern Gas Co. Ltd.*

**H. L. Lepape,**  
Los Angeles, California  
*President, Pacific Interstate  
Transmission Company*

**R. A. MacKimmie, Q.C.,**  
Calgary, Alberta  
*Partner, MacKimmie Matthews*

**C. O. Nickle,**  
Calgary, Alberta  
*President, Conventures Limited*

**R. H. Peterson,**  
San Francisco, California  
*Utility Consultant, Lawyer.  
Director, former Chairman of the  
Board, Pacific Gas and Electric  
Company*

**J. S. Poyen,**  
Calgary, Alberta  
*Oil and Gas Management  
Consultant*

**John A. Sproul,**  
San Francisco, California  
*Executive Vice President, Pacific  
Gas and Electric Company*

### COMMON SHARES LISTED

Alberta, Montreal, Toronto, and  
Vancouver Stock Exchanges

### OFFICERS

**R. A. MacKimmie,**  
*Chairman of the Board*

**Harry Booth,**  
*President and  
Chief Executive Officer*

**D. R. Fenton,**  
*Senior Vice-President*

**J. E. Goudie,**  
*Senior Vice-President*

**G. D. Barnes,**  
*Vice-President, Operations*

**G. W. Sinclair,**  
*Vice-President,  
Engineering and Construction*

**D. McMorland,**  
*Vice-President,  
Regulatory Affairs*

**G. T. Noland,**  
*Vice-President,  
Planning and Development*

**F. G. Homer,**  
*Secretary and General Counsel*

**H. B. Sanderson,**  
*Treasurer*

**G. J. Clark,**  
*Comptroller*

### AUDITORS

Deloitte, Haskins & Sells  
Chartered Accountants,  
Calgary, Alberta

### TRANSFER AGENT AND REGISTRAR

(Capital Stock and 8½% First  
Mortgage Pipe Line Bonds, Series  
C) Montreal Trust Company,  
Calgary, Montreal, Regina,  
Toronto, Vancouver, Winnipeg

Notice of change of address should  
be sent to the Transfer Agent.

### ANNUAL MEETING

THE ANNUAL MEETING of  
Shareholders will be held in the  
Bonavista Room, Calgary Inn,  
Calgary, Alberta, on Friday, the  
25th day of April, 1980, at 9:30 a.m.

The notice of meeting and proxy  
form are being mailed with this  
report to all shareholders of record.

*COVER: Aerial view of Flathead  
Ridge through the Canadian Rockies,  
in southeast British Columbia, over  
which Alberta Natural's pipeline  
traverses.*

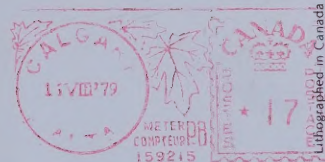
# ALBERTA NATURAL GAS Company Ltd



## INTERIM REPORT TO SHAREHOLDERS

SIX MONTHS ENDED  
JUNE 30, 1979

ALBERTA NATURAL GAS COMPANY LTD  
240 Fourth Avenue S.W.  
Calgary, Alberta  
T2P 0H5



I. CARMEN, BUSINESS EDITOR  
THE GLOBE AND MAIL  
444 FRONT STREET WEST  
TORONTO, ONTARIO M5V 2S9

AR54

## Condensed Earnings Statement

(Thousands of Dollars)

	Six Months Ended June 30, 1979	1978
Operating revenues:		
Gas transmission .....	12,105	11,322
NGL extraction .....	14,929	15,144
Ethane extraction .....	21,008	—
Total operating revenues .....	48,042	26,466
Operating expenses:		
Operating and maintenance .....	36,693	19,525
Depreciation .....	2,874	1,682
Property taxes .....	635	546
Total operating expenses .....	40,202	21,753
Operating income .....	7,840	4,713
Other income .....	98	1,691
Total .....	7,938	6,404
Interest and other income deductions .....	1,216	1,321
Income before income taxes .....	6,722	5,083
Provision for income taxes .....	3,229	2,623
Net income .....	3,493	2,460
Earnings per share (1,192,822 outstanding) .....	\$2.93	\$2.06

## Statement of Changes in Financial Position

(Thousands of Dollars)

	Six Months Ended June 30, 1979	1978
Funds provided:		
Net income .....	3,493	2,460
Depreciation and other income deductions .....	2,900	1,707
Provision for income taxes .....	3,229	2,623
Decrease in working capital other than short term borrowings .....	7,070	5,598
Total .....	16,692	12,388
Funds applied:		
Net additions to plant, property and equipment .....	3,782	14,421
Income taxes paid .....	513	—
Reduction of long term debt .....	1,561	1,293
Decrease (increase) in notes payable .....	9,317	(4,762)
Dividends .....	1,431	1,026
Other deferred charges .....	88	410
Total .....	16,692	12,388

The above figures have been prepared from the records  
of the Company without audit.



# Alberta Natural Gas Company Ltd

## TO SHAREHOLDERS:

### Financial

For the six month period ended June 30, 1979, net income of Alberta Natural amounted to \$3,493,000, or \$2.93 per share, which compares with \$2,460,000, or \$2.06 per share in the corresponding period of 1978. Profits which may result from participation in the marketing of natural gas liquids are not included in earnings as such profits are determinable only on an annual basis.

The increase in earnings in the current period is primarily attributable to the new ethane extraction facility at the Cochrane plant.

A comparative summary of financial results for the first six months of 1979 and 1978 is included within this report.

### Pipeline Operations

An average of 34.0 10<sup>6</sup>m<sup>3</sup> (1,199 million cubic feet) of natural gas per day was delivered during the first half of 1979 for export at the international boundary at Kingsgate, British Columbia, on behalf of Alberta and Southern Gas Co. Ltd. and Westcoast Transmission Company Limited. Deliveries of gas for distribution in the East Kootenay area of British Columbia averaged 0.6 10<sup>6</sup>m<sup>3</sup> (20 million cubic feet) per day during the same period. In addition, an average of 0.03 10<sup>6</sup>m<sup>3</sup> (1 million cubic feet) per day was delivered on behalf of Alberta and Southern to Westcoast Transmission at the East Kootenay exchange meter station near Yakh, British Columbia.

### Pipeline System Expansion

Pan-Alberta Gas Ltd. has applied to the National Energy Board for a licence to export up to 7.5 10<sup>6</sup>m<sup>3</sup> (265 million cubic feet) per day of natural gas to western United States markets using the prebuilt western leg of the Alaska Highway gas pipeline project. The management

of construction and the operation of the southeastern British Columbia portion of this project will be undertaken by Alberta Natural. The pre-building phase involves approximately 83.69 km (52 miles) of loop connected to Alberta Natural's existing pipeline system. The new facilities will be owned by Foothills Pipe Lines (South B.C.) Ltd.

During this period, representatives of Alberta Natural participated in National Energy Board hearings relating to the tariff and to preliminary expenditures with respect to the Alaska project.

### Liquids Extraction Operations

Production of natural gas liquids averaged 1 740 m<sup>3</sup> (10,900 barrels) per day and production of ethane averaged 3 250 m<sup>3</sup> (20,400 barrels) per day during the first half of 1979.

### Corporate Affairs

At the Annual Meeting of Shareholders April 27, 1979, approval was given to apply for continuance of Alberta Natural as a corporation under the Canada Business Corporations Act. Such continuance became effective May 14, 1979.

Very truly yours,



July 27, 1979

PRESIDENT AND CHIEF  
EXECUTIVE OFFICER

### NOTE:

The following conversion formulae have been utilized throughout this report.

1 MMcf (million cubic feet) =  
0.028 million cubic metres (10<sup>6</sup>m<sup>3</sup>)  
1 barrel (42 U.S. gallons) =  
0.159 cubic metres (m<sup>3</sup>)  
1 mile = 1.609 kilometres (km)





# FINANCIAL HIGHLIGHTS

	<u>1979</u>	<u>1978</u>
Operating revenue .....	\$110,207,000	\$ 62,150,000
Net income .....	10,057,000	7,271,000
Income per average outstanding common share	8.43	6.10
Dividends paid per common share		
annual rate .....	3.40(1)	2.40
Common equity		
total at year end .....	45,040,000	38,442,000
per share .....	37.76	32.23
Construction expenditures .....	5,073,000	23,926,000

NOTE: (1) Effective September, 1979.

*View of refrigeration compressor  
discharge piping on new ethane  
extraction facility.*



# TO OUR SHAREHOLDERS



*The Cochrane Liquids extraction plant  
with Rocky Mountains in the  
background.*

This 1979 annual report comments on a decade of growth for Alberta Natural.

At the end of the previous decade, the Company's primary function was the operation of its gas transmission facility in southeastern British Columbia for the transportation of natural gas originating in Alberta gas fields and delivered for export to markets in California and the northwestern United States. In 1970, the liquids extraction plant near Cochrane, Alberta was completed and commenced delivering substantial volumes of propane and heavier hydrocarbons, for sale principally in eastern Canada and United States markets. The plant was substantially expanded in 1978 to produce ethane for use largely in the petrochemical industry in Alberta.

Alberta Natural has shown a steady increase in net income over the last ten years and we are pleased this year again to report a substantial increase in net earnings in 1979. Profits from the sale of natural gas liquids and from the completed ethane facilities have continued to be the main contributing factor.

Of major importance to the continued growth of the Company are the prospects for diversification and areas of new investment which are actively being investigated by the Planning and Development Department. Together with the continuation of efficient and effective operations of our existing facilities, we look forward with confidence to the future. One potential investment lies with the



further expansion of the Cochrane plant. The Alberta Gas Ethylene Company Ltd., the present buyer of the ethane produced at the Cochrane plant, intends to construct a second ethylene plant near Red Deer, Alberta, and Alberta Natural is now studying the effects of expanding its plant with the expectation that it will be an ethane supplier to the new ethylene facility.

Since 1972, Alberta Natural has been heavily involved in regulatory proceedings that led to the certification by the National Energy Board of the Foothills group of companies to construct the pipeline system which will ultimately carry Alaskan gas across Canada to the United States. Alberta Natural is participating with Foothills in the portion of this project that traverses our traditional operating area in British Columbia.

During 1979, the Company was advised by the National Energy Board that because certain Alberta Natural charges will form part of the Foothills tariff, the Company's pipeline cost of service would be examined by the Board.

Information has been filed with the Board for the twelve month period ended December 31, 1980 from which the Board will determine, through the public hearing process, the justness and reasonableness of the Company's tolls and tariffs. Although the filing includes a request that the Board approve a higher rate of return on transmission rate base, the effect on the net earnings of the Company if the request is granted will be minor.

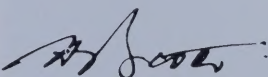
A hearing is scheduled to commence in Ottawa on March 11, 1980.

Activities of the past decade have provided a solid base for the growth of existing Company operations, as well as new investment opportunities. During the next ten years we are optimistic that the continued development and expansion of present facilities will be complemented by a significant involvement in new areas of business.

For the Board of Directors

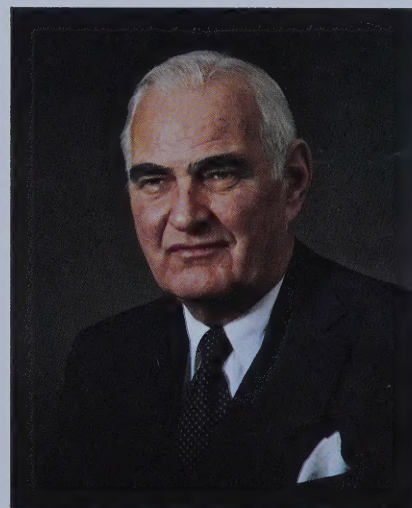


Chairman of the Board

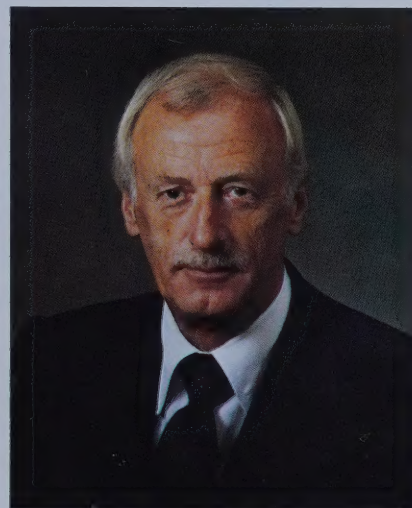


President and Chief  
Executive Officer

March 5, 1980




*R. A. MacKimmie, Q.C.*  
*Chairman of the Board*



*Harry Booth*  
*President and Chief Executive Officer*



# REVIEW OF OPERATIONS



## FINANCIAL

The Company's net income for 1979 was \$10,057,000 or \$8.43 per common share outstanding. The comparable net income for 1978 was \$7,271,000 or \$6.10 per common share.

Operation of the new ethane facility and profits arising from participation in the downstream sale of natural gas liquids contributed substantially to the 38% increase in net income over 1978.

On March 5, 1980, the Board of Directors resolved to recommend to the shareholders of the Company that the outstanding common shares of the Company be split on a five for one basis. It is believed that this action would result in a broader and more diversified market for the Company's common shares. The split would have no effect on any shareholders' proportionate equity in the

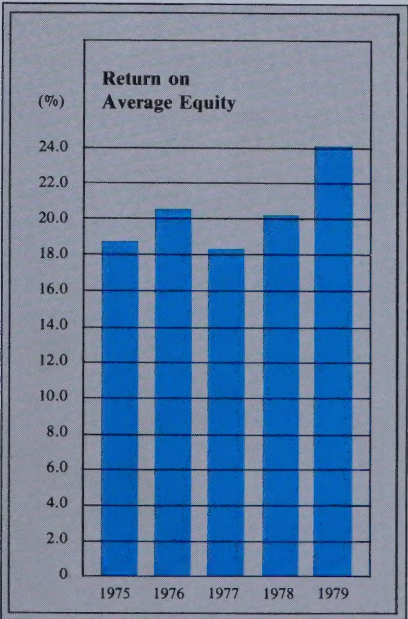
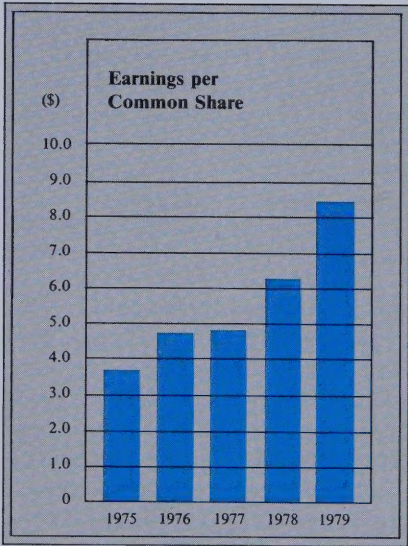
*The top of the water cooling tower  
between fan housings.*



Company. At the annual meeting on April 25, 1980, the shareholders will be asked to approve such recommendation.

The annual dividend rate on Alberta Natural's common shares was increased to \$3.40 per share from \$2.40 per share effective with the quarterly dividend payment in September, 1979, and was further increased to \$4.20 per share effective with the quarterly payment in March, 1980.

At the Annual Meeting of Shareholders in April, 1979, a special resolution was passed authorizing the Company's application for a Certificate of Continuance to continue as required by the Canada Business Corporations Act and the revision to certain by-laws of the Company to conform with that statute. The Certificate of Continuance was issued May 14, 1979.





EXTRACTION OPERATIONS

On March 2, 1979, production at the Cochrane plant was reduced as a result of a fire in a large process heater. Repairs to this equipment required replacement of all of the internal elements. In addition, on March 13, in an unrelated incident, a mechanical failure of a residue gas compressor coupling occurred which required a complete plant shutdown. The mechanical failure was repaired and that portion of the plant was returned to service on April 1, 1979. The entire plant was back in full operation on April 14, 1979. Despite these problems, the plant achieved an operating efficiency of 91% for the year 1979.

The increase in average daily production during this year, indicated by the graph, was attributable to the increase in quantities of gas available for processing, which more than offset the reduction due to the operating problems.

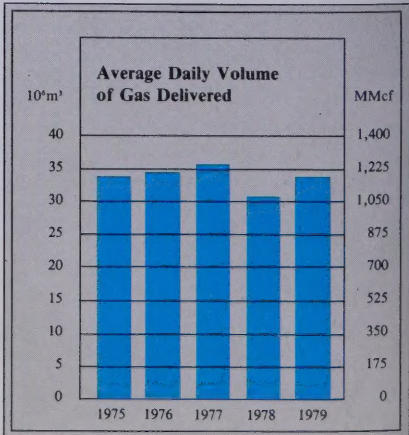
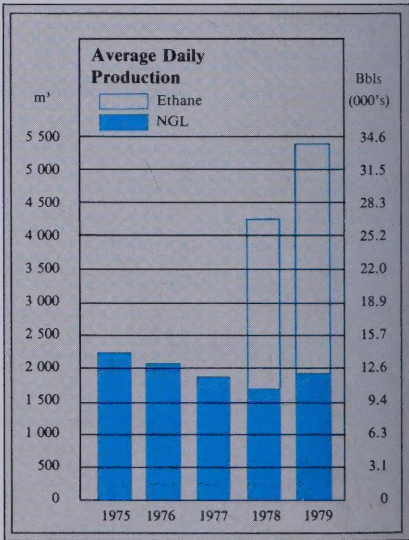
Capital expenditures for additions and modifications to the Cochrane plant in 1979 amounted to \$4,864,000.

PIPELINE OPERATIONS

The pipeline transmission system operated successfully over the past year with turbine driven compressor units achieving over 99% availability, and maintaining record operating periods between major overhauls.

As indicated by the graph, during 1979, daily deliveries of natural gas averaged 33.94 10<sup>6</sup>m<sup>3</sup> (1,200 MMcf) compared with 30.57 10<sup>6</sup>m<sup>3</sup> (1,079 MMcf) in 1978. The increase in average daily deliveries resulted from an increase in requirements in market areas serviced by the major shipper, Alberta and Southern Gas Co. Ltd.. The 1979 level of delivery for Alberta and Southern represented an annual quantity of approximately 104% of its nominal licenced volume compared to 92% in 1978.

Capital expenditures for minor additions and modifications to the pipeline during 1979 amounted to \$209,000.





**FOOTHILLS PIPELINE  
PROJECT**

During 1979, the National Energy Board heard several applications requesting authority to export surplus Alberta gas and released its decision in December. Pan-Alberta Gas Ltd. was authorized to export natural gas through the pre-built sections of the Alaska Highway gas pipeline project. Your Company's affiliate and major transmission customer, Alberta and Southern Gas Co. Ltd., was also an applicant at the hearings and received authorizations to extend two of its export licences which expire in 1985 and 1986, by two years and one year respectively. Alberta and Southern is also supporting Pan-Alberta's project with an agreement to sell to Pan-Alberta up to 5.6 10<sup>6</sup>m<sup>3</sup> (200 MMcf) per day. Deliveries under this agreement are expected to commence in late 1980, or early 1981, and to continue for six years.

The management of construction and the operation of the south-eastern British Columbia portion of the pre-built western leg of the Alaska Highway project will be undertaken by Alberta Natural. The pre-building phase involves approximately 88.5 km (55 miles) of loop connected to Alberta Natural's existing pipeline system. The new facilities will be owned by Foothills Pipe Lines (South B.C.) Ltd.. A 49% interest in the shares to be issued by that company will be owned by Alberta Natural. During the year, representatives of Alberta Natural participated in National Energy Board hearings relating to the tariff and to preliminary expenditures with respect to the project.

Phases I, II, and III of the Foothills Pipe Lines (Yukon) Ltd. tariff hearing before the National Energy Board have been completed and decisions rendered. The Phase I and II decisions approved in principle the form and content of a full cost of service tariff including both a Gas Transportation Agreement and an Operating Agreement between Foothills (South B.C.) and Alberta Natural. The Board's Phase III decision related to the appropriate incentive rate of return for the Foothills segment companies. Phase IV dealt primarily with the financing of the "pre-build" facilities including possible project modifications that may be necessary for successful financing. This phase was heard during February, 1980, and no decision has yet been rendered.

Major field work conducted during the year on the Foothills project in southeastern British Columbia included surveying and an archaeological study. Company personnel were involved with the Foothills group of companies, the Northern Pipeline Agency and the Province of British Columbia in many areas including the preparation of environmental and socio-economic terms and conditions which should be finalized early in 1980.

**PERSONNEL**

Following the Annual Meeting in April, 1979, Mr. J. E. Goudie was appointed to the position of Senior Vice-President and Mr. G. T. Noland was appointed Vice-President, Planning and Development.

The Company believes that the well-being of its employees is of paramount importance in its effective operations. In 1979, the employees of Alberta Natural through their skill, expertise, and dedication have once again contributed significantly to the progress of the Company. Awards won by the operations departments in 1979 reflect the concern for safety that is of primary interest to both management and employees. The Canadian Natural Gas Processors' Association award representing eight consecutive years without a lost-time accident was won by Cochrane plant personnel. Safety awards were also presented from the Canadian Gas Association (for both the pipeline and Cochrane personnel) for an accident-free safe driving record for 1979, and from the Alberta Occupational Health and Safety Division of the Labor Department for no lost time at the Cochrane plant.

Pipeline operating personnel also achieved a commendable safety record during 1979 having completed four years without a lost-time accident.



# FINANCIAL STATEMENTS



*View of the Coker plant including a section of flare line pipe in the foreground.*



# Alberta Natural Gas Company Ltd

## STATEMENT OF INCOME

For the year ended December 31, 1979

(with 1978 figures for comparison)

	1979	1978
	(thousands of dollars)	
OPERATING REVENUE:		
Transportation of gas	\$ 25,294	\$ 21,443
Liquids extraction	84,433	40,326
Other facilities	480	381
Total operating revenue	110,207	62,150
OPERATING EXPENSES:		
Operating and maintenance	80,524	43,015
Administrative	2,253	1,555
Depreciation	5,860	3,972
Property taxes	1,839	1,327
Total operating expenses	90,476	49,869
OPERATING INCOME	19,731	12,281
OTHER INCOME	167	3,071
INCOME BEFORE INCOME DEDUCTIONS	19,898	15,352
INCOME DEDUCTIONS:		
Interest on long term debt	1,887	2,037
Interest on other debt	679	965
Other	49	49
Total income deductions	2,615	3,051
INCOME BEFORE INCOME TAXES	17,283	12,301
PROVISION FOR INCOME TAXES:		
Current	3,724	174
Deferred	3,502	4,856
	7,226	5,030
NET INCOME FOR THE YEAR	\$ 10,057	\$ 7,271
EARNINGS PER COMMON SHARE	\$8.43	\$6.10

See accompanying summary of accounting policies and notes.



# Alberta Natural Gas Company Ltd

ASSETS	1979	1978
	(thousands of dollars)	
PLANT, PROPERTY AND EQUIPMENT (Note 1)	\$119,449	\$114,419
Less accumulated depreciation	41,141	35,307
Net plant, property and equipment	78,308	79,112
CURRENT ASSETS:		
Cash and interest bearing deposits	2,353	6,019
Accounts receivable	14,758	10,549
Materials and supplies	1,567	1,343
Prepayments and other current assets	94	93
Total current assets	18,772	18,004
DEFERRED CHARGES (Note 2)	3,451	3,210
TOTAL	\$100,531	\$100,326

Approved by the Board:

*Richard H Peterson*

Director

*A. J. Scott*

Director

See accompanying summary



# BALANCE SHEET

December 31, 1979

(with 1978 figures for comparison)

SHAREHOLDERS' EQUITY AND LIABILITIES	1979	1978
	(thousands of dollars)	
SHAREHOLDERS' EQUITY (Note 3):		
Capital stock:		
1,192,822 common shares	\$ 11,928	\$ 11,928
Contributed surplus	2,386	2,386
Reinvested earnings	30,726	24,128
Total shareholders' equity	45,040	38,442
LONG TERM DEBT (Note 4)	20,879	23,252
DEFERRED INCOME TAXES	22,476	18,974
CURRENT LIABILITIES:		
Notes payable	—	11,011
Accounts payable	7,971	6,435
Income taxes payable	2,110	—
Interest accrued	328	485
Sinking fund instalments due within one year	1,623	1,623
Total current liabilities	12,032	19,554
CONTRIBUTIONS IN AID OF CONSTRUCTION	104	104
TOTAL	\$100,531	\$100,326



# Alberta Natural Gas Company Ltd

## STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended December 31, 1979

*(with 1978 figures for comparison)*

	1979	1978
	(thousands of dollars)	
FUNDS PROVIDED:		
From operations:		
Net income	\$10,057	\$ 7,271
Add non-cash items:		
Depreciation	5,860	3,972
Provision for income taxes	3,502	4,856
Other income deductions	49	49
	19,468	16,148
Gas Arctic costs recovered	—	8,443
Decrease (increase) in working capital other than notes payable	2,721	(1,207)
Total	\$22,189	\$23,384
FUNDS APPLIED:		
Net additions to plant, property and equipment	\$ 5,056	\$23,922
Reduction of long term debt	2,373	2,374
Dividends	3,459	2,255
Gas Arctic-Northwest Project expenditures	—	780
Deferred Charges	290	65
Decrease (increase) in notes payable	11,011	(6,012)
Total	\$22,189	\$23,384

*See accompanying summary of accounting policies and notes.*



# Alberta Natural Gas Company Ltd

## STATEMENT OF REINVESTED EARNINGS

For the year ended December 31, 1979

*(with 1978 figures for comparison)*

	1979	1978
	(thousands of dollars)	
BALANCE AT BEGINNING OF THE YEAR	\$24,128	\$19,112
NET INCOME FOR THE YEAR	10,057	7,271
	34,185	26,383
DIVIDENDS PAID ON COMMON SHARES	3,459	2,255
BALANCE AT END OF THE YEAR	\$30,726	\$24,128

*See accompanying summary of accounting policies and notes.*



# SUMMARY OF ACCOUNTING POLICIES

*December 31, 1979*

## **OPERATIONS:**

Alberta Natural owns and operates a 36-inch pipeline from a point near Coleman, Alberta to Kingsgate, on the British Columbia-Idaho border for the transportation of gas owned by Alberta and Southern Gas Co. Ltd. and Westcoast Transmission Company Limited. Alberta Natural also owns and operates an extraction plant near Cochrane, Alberta, which removes propane and heavier liquids (NGL) and ethane from the gas stream of Alberta and Southern.

The gas transportation contract with the gas shippers and the sale agreements with the purchasers of NGL and ethane provide for the full recovery of all operating expenses, depreciation, property and income taxes, together with a return on the unrecovered investment. In addition, Alberta Natural is entitled to 25% of the cumulative net marketing profits arising from the sale of the NGL by each of the buyers, Dome Petroleum Limited and Amoco Canada Petroleum Company Ltd., and a share of the annual net profit realized by the buyer, The Alberta Gas Ethylene Company Ltd., on the sale outside Alberta of ethane surplus to ethylene plant requirements.

## **REGULATION:**

The gas transmission segment of Alberta Natural's operations is subject to the National Energy Board Act and to the jurisdiction of the Board created thereby. This Board regulates accounting matters, export of gas, construction and operation of gas pipelines and rates, tolls and tariffs charged for such operations. In response to a request from the Board, Alberta Natural has filed material to permit the determination of the justness and reasonableness of its tariff. The Board has set March 11, 1980 as the date that it will commence its public inquiry into this matter.

## **PLANT, PROPERTY AND EQUIPMENT:**

Plant, property and equipment is carried at cost.

An allowance for funds used during construction is capitalized for plant under construction. The rate

used is normally equivalent to the annual rate of return. Any such allowance recorded is included in other income.

Gas transmission plant is being amortized at an annual rate (approximately 5.14%) equal to the proportion that the annual volume of throughput authorized for export by the shippers bears to the total volume remaining under the licences granted by the National Energy Board.

Depreciation on the portion of the extraction plant used for the removal of NGL is calculated at an annual rate of 2.5% on a straight-line basis. The ethane portion of the extraction facility is being depreciated at an initial rate of approximately 6.25% decreasing to 1.25% after 15 years.

## **INVENTORIES:**

Inventories of materials and supplies are carried at cost.

## **INCOME TAXES:**

Alberta Natural follows the tax allocation basis of recording income taxes on all income except for gas transportation and liquids extraction operations which are subject to cost of service contracts. Income taxes are provided on this source of income only to the extent that they are included in costs of service under such contracts.

## **UNAMORTIZED DEBT EXPENSES:**

Debt expenses applicable to each series of bonds is being amortized over the term of such series.

## **UNAMORTIZED ORGANIZATION AND CAPITAL STOCK EXPENSE:**

Organization and capital stock expense is being amortized over the life of the last expiring export licence (presently October 31, 1993).

## **DEFERRED CHARGES:**

Project costs are initially recorded as deferred charges pending evaluation of the projects. Deferred charges applicable to projects which have been terminated are expensed.

# NOTES TO THE FINANCIAL STATEMENTS

December 31, 1979

(Tabular amounts shown in thousands of dollars)

## 1. PLANT, PROPERTY AND EQUIPMENT:

	1979	1978
Gas Transmission Plant .....	\$ 54,812	\$ 54,656
Extraction Plant .....	61,905	57,132
Other Plant .....	2,631	2,623
Plant Under Construction .....	101	8
	<u>119,449</u>	<u>114,419</u>
Less: Accumulated Depreciation ....	41,141	35,307
Net Plant, Property and Equipment ..	<u>\$ 78,308</u>	<u>\$ 79,112</u>

## 2. DEFERRED CHARGES:

	1979	1978
Foothills Alaska Highway Project ...	\$ 2,821	\$ 2,586
Unamortized debt expense .....	467	508
Unamortized organization and capital stock expense .....	108	116
Other .....	55	—
	<u>\$ 3,451</u>	<u>\$ 3,210</u>

Foothills Alaska Highway Project charges include Gas Arctic costs in the amount of \$1,923,000. These costs have been approved by the National Energy Board for inclusion in the rate base of the Foothills group of companies at such time as the costs are actually transferred to the books of account of these companies.

## 3. SHAREHOLDERS' EQUITY:

On May 14, 1979, Alberta Natural was continued as a corporation pursuant to the provisions of the Canada Business Corporations Act. Under the Act, shares cannot have a par value. Accordingly, shares previously with a par value are now designated as without par value.

The classes of shares Alberta Natural is authorized to issue consist of an unlimited number of preference shares, having such rights and privileges attached to them as the Directors may by resolution determine, and an unlimited number of common shares.

Restriction on the payment of cash dividends under certain circumstances are contained in the Deed of Mortgage and Trust securing Alberta Natural's bonds. At December 31, 1979 \$3,082,000 otherwise available for dividends was restricted in this manner.

## 4. LONG TERM DEBT:

### First Mortgage Pipe Line Bonds:

	Year Issued	Maturity	1979	1978
5¾% Series A ....	1961	1986	\$ 7,065	\$ 8,152
8¾% Series B (\$6,000,000 U.S.) .	1969/70	1991	6,437	6,973
8½% Series C ....	1971	1992	9,000	9,750
			<u>22,502</u>	<u>24,875</u>
Less sinking fund instalments due within one year .....			1,623	1,623
			<u>\$20,879</u>	<u>\$23,252</u>

The Series A Bonds are payable in United States dollars. As provided by the gas transportation contract, Alberta Natural is required to accept from the gas shippers in substitution for an equal number of Canadian dollars, the number of United States dollars required to make the annual principal and interest payments on the bonds. Accordingly, the principal amount of the Series A Bonds and associated interest expense are recorded in Alberta Natural's accounts on the basis of the two currencies being equal in value.

The Series B Bonds are payable in United States dollars. The principal amount of the Series B Bonds is recorded in Alberta Natural's accounts at the amount of Canadian funds received on conversion of United States funds received on issue.

Sinking fund requirements amount to approximately \$2,337,000 (\$1,587,000 (U.S.) and \$750,000 (Cdn.)) in each of the years 1981 to 1984. The 1980 sinking fund requirement for the Series C Bonds has been provided for by the purchase and cancellation of \$750,000 principal amount of such bonds and consequently the liability for sinking fund instalments due within one year has been reduced by this amount.

Substantially all of the properties of Alberta Natural are pledged under the Deed of Mortgage and Trust securing the bonds.



## 5. CLASSES OF BUSINESS OPERATIONS:

At a duly convened Directors' meeting, the minutes of which have been recorded, the Directors of Alberta Natural have determined the following as the classes of business presently being conducted by the company:

	Natural Gas Processing		Pipeline Transport	
	1979	1978	1979	1978
Operating Revenue .	\$84,433	\$40,326	\$25,294	\$21,443
Operating Expenses:				
Operating and maintenance ....	65,836	32,038	14,443	10,714
Administrative ...	1,203	545	946	919
Depreciation .....	2,942	1,056	2,899	2,912
Property taxes ...	552	218	1,249	1,093
	\$70,533	\$33,857	\$19,537	\$15,638
Operating Income .	\$13,900	\$ 6,469	\$ 5,757	\$ 5,805

## 6. RELATED PARTY TRANSACTIONS:

Alberta Natural is related to Pacific Gas Transmission Company, which company owns 45% of Alberta Natural's outstanding capital stock. Pacific Gas Transmission in turn is a subsidiary of Pacific Gas and Electric Company, which company owns 53% of the outstanding capital stock of Pacific Gas Transmission. Alberta and Southern Gas Co. Ltd. is a wholly owned subsidiary of Pacific Gas and Electric Company. Significant transactions with these related companies, not disclosed in the accompanying financial statements, were as follows:

- (1) Net charges for personnel and related administrative costs from:

	1979	1978
Alberta and Southern .....	\$ 1,298	\$ 1,118
Pacific Gas Transmission .....	108	100
Pacific Gas and Electric .....	16	13

- (2) Charges for liquids extraction feedstock and fuel from:

Alberta and Southern .....	62,957	30,429
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- (3) Net charge for transportation of gas to:

Alberta and Southern .....	13,026	12,288
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- (4) Amounts outstanding at December 31:

Payable to:		
Alberta and Southern .....	7,700	6,029
Receivable from:		
Alberta and Southern .....	2,138	1,816

## 7. DIRECTORS AND OFFICERS:

At December 31, 1979 Alberta Natural had nine directors and eleven officers. Three of the officers were also directors. Directors' fees of \$42,300 were paid in 1979 (1978 - \$17,400) which represents the only remuneration received from Alberta Natural by the directors and officers. In respect of services rendered to it by some of its officers who are also officers of a related company, Alberta Natural pays a service charge to the related company.

## 8. COMMITMENT:

Alberta Natural will construct and operate the segment of the Foothills Alaska Highway Project in southeastern British Columbia parallel to the Alberta Natural pipeline and has undertaken to subscribe for 49% of the shares to be issued by Foothills Pipe Lines (South B.C.) Ltd., which company will own that segment of the Foothills Alaska line. The amount of this investment is not yet determinable.

## 9. CLASSIFICATIONS:

Certain of the prior year's figures, provided for purpose of comparison have been reclassified in conformity with the current year's presentation.

# AUDITORS' REPORT

**To the Shareholders of  
Alberta Natural Gas Company Ltd:**

We have examined the balance sheet of Alberta Natural Gas Company Ltd as at December 31, 1979 and the statements of reinvested earnings, income and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta  
February 5, 1980

DELOITTE, HASKINS & SELLS  
Chartered Accountants



# TEN YEAR COMPARATIVE HIGHLIGHTS

	1979	1978	1977
Operating revenue (\$000's)	110,207	62,150	52,387
Net income (\$000's)	10,057	7,271	5,787
Common equity			
total (\$000's)	45,040	38,442	33,426
per share (\$)	37.76	32.23	28.02
Average equity outstanding (\$000's)	41,741	35,934	31,513
Return on average equity (%)	24.09	20.23	18.36
Average number of common shares outstanding	1,192,822	1,192,822	1,192,822
Earnings per outstanding common share (\$)	8.43	6.10	4.85
Cash dividends (\$000's)	3,459	2,255	1,962
Annual dividend rate per common share (\$) (2)	3.40	2.40	1.72
Dividend payout ratio (%)	34.4	31.0	33.9
Total gas plant at year end (\$000's)			
original cost	119,449	114,419	90,503
depreciated cost	78,308	79,112	59,162
Construction expenditures (\$000's)	5,073	23,926	15,318
Average daily volume of gas delivered (10 <sup>6</sup> m <sup>3</sup> )	33.94	30.57	35.13
(MMcf)	1,200	1,079	1,240
Maximum daily volume of gas delivered (10 <sup>6</sup> m <sup>3</sup> )	37.20	36.66	39.77
(MMcf)	1,312	1,294	1,404
Average daily production of			
NGL (m <sup>3</sup> )	1 930	1 680	1 840
(Bbbls)	12,160	10,540	11,600
Ethane (m <sup>3</sup> )	3 485	2 630	—
(Bbbls)	21,920	16,530	—

NOTES: (1) Includes special item

(2) At year end

1976	1975	1974	1973	1972	1971	1970
47,317	41,063	30,940	23,853	17,291	14,170	7,797
5,701	4,563	3,456	2,144	1,977	1,770	1,612
29,601	25,725	22,832	20,688	19,796	19,012	18,435
24.82	21.57	19.14	17.34	16.60	15.94	15.45
27,663	24,278	21,760	20,242	19,404	18,723	15,200
20.61	18.79	15.88	10.59	10.19	9.45	10.61
12,822	1,192,822	1,192,822	1,192,822	1,192,822	1,192,822	942,334
4.78	3.83	2.90	1.80	1.66	1.48	1.71(1)
1,825	1,670	1,312	1,252	1,193	1,193	937
1.62	1.50	1.10	1.10	1.00	1.00	1.00
32.0	36.6	38.0	58.4	60.3	67.4	58.1
5,213	75,105	74,183	73,911	73,544	72,999	68,378
7,220	50,456	52,591	55,342	58,012	60,439	57,969
271	946	314	357	564	4,673	16,838
34.56	33.94	31.95	34.53	34.16	31.84	27.76
1,220	1,198	1,128	1,219	1,206	1,124	980
38.47	37.96	38.78	38.87	37.73	36.91	33.09
1,358	1,340	1,369	1,372	1,332	1,303	1,168
2 020	2 210	2 110	2 460	2 080	1 450	990
2,700	13,900	13,300	15,500	13,100	9,100	6,200
—	—	—	—	—	—	—
—	—	—	—	—	—	—



**COMMON SHARE MARKET INFORMATION**  
(Toronto Stock Exchange)

<b>1979</b>	<b>High</b>	<b>Low</b>	<b>Close</b>	<b>Shares Traded</b>	<b>Dividends Paid</b>
First Quarter	\$53	\$45	\$53	35,241	\$0.60
Second Quarter	58 1/4	53	57	5,318	0.60
Third Quarter	70 1/4	55 3/4	68	17,850	0.85
Fourth Quarter	73 1/2	56 3/4	70	10,622	0.85
<b>Year</b>	<b>73 1/2</b>	<b>45</b>	<b>70</b>	<b>69,031</b>	<b>2.90</b>
<b>1978</b>	<b>\$48 1/2</b>	<b>\$38</b>	<b>\$48</b>	<b>54,919</b>	<b>\$1.89</b>

**METRIC CONVERSION FORMULAE**

1 MMcf (million cubic feet)	=	.028 10 <sup>6</sup> m <sup>3</sup> (million cubic metres)
1 barrel (42 U.S. gallons)	=	.159 m <sup>3</sup> (cubic metres)
1 mile	=	1.609 km (kilometres)





**ALBERTA NATURAL GAS COMPANY LTD**

**1979 Annual Report**

